

March 12, 2013

How Will Latin Resources Monetise Its Huge Heavy Minerals Discovery In Peru?

By Our Man In Oz

Every explorer who makes a discovery is asked at some point how the minerals in the ground will be converted into money in the bank.

Not everyone's found it easy, of course.

[Latin Resources](#) has not yet been asked, but it will not long before someone pops the "commercial development" question, in light of the steady flow of encouraging discovery and evaluation news that's coming out of its emerging world-class Guadalupito heavy minerals project in Peru.

One possible solution, though not one being widely discussed yet, is for Latin to take "small bites" of the magnetite, andalusite, titanium minerals and gold that lie on its ground on the coast of the Pacific Ocean.

The metals have been swept along the coast and deposited there over millions of years after being washed down from the heavily-mineralised Andes.

The "staged development" potential for Guadalupito has been floated in research reports written by stockbroking firms close to ASX-listed Latin, including BCP Equities and Breakaway Research.

Both have noted the high overall capital requirement of a full-blown mine which has been put at US\$624 million, many times the current market value of the company, and both see value in a small starter mine which could grow.

"Sensibly, Latin is progressing an interim option to establish an initial cash flow from the project", BCP noted in a report circulated late last month. The company focus, according to the broker, would be on dry mining (front-end loader and truck) discrete high-grade zones above the water table to produce magnetite and gold while stockpiling other heavy minerals.

"This is a sound strategy with a materially lower capital investment required to begin leveraging off the substantial resource," BCP said.

Breakaway has gone much further, putting numbers against a possible starter-mine. This, said Breakaway, could shift around 10 million tonnes of what is essentially an ancient beach, and do that for between US\$30 million and US\$35 million, a much more appealing cost in tight financial times than the original two-stage proposal circulated last year which envisaged a 25 million tonne-a-year development costing US\$344 million, to be followed up by a second stage which would add another 25 million tonne-a-year production circuit for an extra US\$280 million.

“Assuming a head grade of 8% heavy minerals, as mining would commence above the water table, Latin has the potential to produce 800,000 tonnes of heavy minerals a year,” Breakaway said.

A possible “menu” of minerals produced would feature 208,000 tonnes of magnetite, 200,000 tonnes of andalusite, 35,200 tonnes of titanium minerals, 13,600 tonnes of garnet, 4,800 tonnes of apatite, and 1,600 tonnes of zircon.

That list gives a taste of what lies in the Guadalupito structures, and also contains a hint of the challenges which lie ahead for Latin which has to not only decide how big a mine it might be able to develop, but what sort of mine it would be.

Will it be an iron ore development dominated by magnetite which could be sold to the local Peruvian steel industry, or an andalusite mine, the product from which could also be used in the steel business, but which also has increasingly interesting uses as a bauxite substitute given its composition of aluminium and silica.

Then again, would it be more along the lines of a traditional titanium and zircon mine with lucrative by-products such as gold and garnet?

Investors have been running hot and cold with Latin over the past 12-months. They seem to like what’s been discovered, but would also like to see how the project, one of three Latin has in Peru, is structured financially.

After rushing up to a peak share price early last year of A42 cents as the size of the discovery started to become clearer, Latin eased back to as low as A13 cents early this year. The spark which lifted the stock back to its current price of A20 cents was a combination of a fresh, and very impressive, resource upgrade, and news of the first mineral separation trials which are crucial in determining the flow sheet of any future mine, and what product streams make the most commercial sense.

On the resource upgrade, which lifted Guadalupito to an eye-catching 1.465 billion tonnes of material grading 5.7% cent heavy minerals, Latin’s chief executive, Chris Gale, described the result as extremely pleasing because it was the third JORC-code compliant resource upgrade and “a real game changer for Latin”.

“To have achieved almost 1.5 billion tonnes of inferred resource after only two years of exploration is a significant feat,” Chris said when announcing the latest upgrade. “With such a massive resource base, and promising product potential for magnetite, andalusite, zircon,

monazite, titanium and other minerals, Latin has laid the foundations for evaluating a significant multi-commodity operation, and will continue to work towards realising value of this considerable asset by expediting plans to move into production.”

That comment about moving into production is where the brokers, with their greater freedom to speculate, can see Latin making brisk progress towards a staged development with the attraction of a low initial capex outlay and the conversion of the company from explorer to producer.

Breakaway, in its advice to clients, is leaning strongly towards the appeal of a small-scale starter mine. “This development option makes sense given the tight capital market which currently exists,” the broker said. “Feasibility level studies are likely to progress in the coming months.”

What the brokers have discovered, a little late in the day, is largely what Minesite’s Man in Oz noted last November when updating readers on Latin’s activities in Peru, describing it as a small company which was “holding a tiger by the tail”.

The trick now is to reverse the natural order of things and turn the tiger into a cub.